

**BOARD OF COUNTY COMMISSIONERS**

**AGENDA ITEM SUMMARY**

Meeting Date: September 20, 2006

Division: Employee Services

Bulk Item: Yes X No     

Department: Employee Benefits Office

Staff Contact Person: Maria Z. Fernandez-Gonzalez

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**AGENDA ITEM WORDING:** Approval to purchase Specific Excess Workers' Compensation Insurance from State National Insurance Company for a projected annual premium of \$155,000.

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**ITEM BACKGROUND:** Monroe County is currently insured with Safety National with an annual premium of \$158,377.

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**PREVIOUS RELEVANT BOCC ACTION:** Services last bid in 2003 – Midwest was the selected company; Services re-bid in 2006 at the direction of the BOCC.

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**CONTRACT/AGREEMENT CHANGES:** Decrease in the annual premium to \$155,000 (unauditable)

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**STAFF RECOMMENDATIONS:** Approval

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**TOTAL COST:** \$155,000

**BUDGETED:** Yes X No     

**COST TO COUNTY:** \$155,000

**SOURCE OF FUNDS:** Primarily Ad Valorem

**REVENUE PRODUCING:** Yes      No X **AMOUNT PER MONTH**      **Year**     

**APPROVED BY:** County Atty X *mae* OMB/Purchasing X *[Signature]* Risk Management X

**DOCUMENTATION:** Included X To Follow      Not Required     

**DISPOSITION:**      **AGENDA ITEM #**

# MONROE COUNTY BOARD OF COUNTY COMMISSIONERS

## CONTRACT SUMMARY

Contract #

Contract with: States National Insurance Company

Effective Date: October 1, 2006

Expiration Date: September 30, 2007

Contract Purpose/Description: Approval to purchase Specific Excess Workers' Compensation Insurance.

Contract Manager:

4448

Employee Services

Maria Z. Fernandez-Gonzalez

(Name)

(Ext.)

(Department)

for BOCC meeting on September 20, 2006

Agenda Deadline: September 5, 2006

## CONTRACT COSTS

Total Dollar Value of Contract: \$155,000

Current Year Portion: \$ \_\_\_\_\_

Budgeted? Yes ☒ No ☐

Account Codes: 501-07502-530450- \_\_\_\_\_

Grant: \$ \_\_\_\_\_

County Match: \$ \_\_\_\_\_

## ADDITIONAL COSTS

Estimated Ongoing Costs: \$ \_\_\_\_\_/yr

For: \_\_\_\_\_

(Not included in dollar value above)

(eg. maintenance, utilities, janitorial, salaries, etc.)

## CONTRACT REVIEW

	Date In	Changes Needed	Reviewer	Date Out
Division Director	<u>9-1-06</u>	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	<u>J. E. Quisenberry</u>	<u>9-1-06</u>
Risk Management	<u>9-5-06</u>	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	<u>J. E. Quisenberry / Geri H. Bank</u>	<u>9-5-06</u>
O.M.B./Purchasing	_____	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	<u>Shantre Spivee</u>	<u>9-5-06</u>
County Attorney	<u>9-5-06</u>	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	<u>Stephen W. Case</u>	<u>9-5-06</u>

Comments: \_\_\_\_\_



**BOARD OF COUNTY COMMISSIONERS**

MAYOR Charles "Sonny" McCoy, District 3  
Mayor Pro-tem Dixie M. Spehar, District 1  
George Neugent, District 2  
Mario DiGennero, District 4  
George Patton, District 5

Employee Services Division  
**Benefits Office**  
1100 Simonton Street, Suite 2-268  
Key West, Florida 33040  
Phone (305) 292-4448  
Facsimile (305) 292-4452



**MEMORANDUM**

To: Monroe County Board of Commissioners

Thru: Teresa E. Aguiar, Division Director, Employee Services

From: Maria Z. Fernandez-Gonzalez, Sr. Administrator, Benefits

Date: September 1, 2006

Re: Approval to purchase Specific Excess Workers' Compensation Insurance

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Approval to purchase Specific Excess Workers' Compensation Insurance from States National Insurance Company for the period of October 1, 2006 to September 30, 2007.

Currently the County's excess insurer is Safety National Casualty Corporation with an annual premium of \$158,377.

At the direction of the Board an RFP was done June 2006 for Specific Excess Workers' Compensation insurance resulting in the receipt of six (6) different proposals. States National Insurance Company submitted two self-insured options. The first option would require the County to assume the first \$1 million of each claim. The proposed premium for this option is \$155,000. States National second option would allow the County to reduce its self-insured retention to \$750,000 and the proposed premium for this option is \$162,000.

In deciding which self-insured option is best, our historical losses were analyzed and since 1992 only two workers' compensation claims have a projected value in excess of \$500,000. Neither of these claims would have exceeded either the \$750,000 or the \$1 million retention.

It is staff's recommendation that Monroe County accepts States National option that includes a \$1 million self-insured retention for its Workers' Compensation insurance for the period of October 1, 2006 through September 30, 2007 as submitted by Brown and Brown at an annual cost of \$155,000.

**MONROE COUNTY, FLORIDA**  
**2006/2007**  
**EXCESS WORKERS' COMPENSATION PROGRAM**  
**EVALUATION OF PROPOSALS**

Monroe County's Excess Workers' Compensation insurance expires on September 30, 2006. In accordance with the County's purchasing procedures, competitive proposals were obtained for the 2006/2007 policy year. The process began with the development of detailed bid specifications that outlined the required coverages and information necessary for interested insurance companies to develop their proposals. A public notice of the County's intent to receive proposals was placed in local news publications and the specifications were posted on Demand Star.

In an effort to control the process and to ensure all interested proposers had an equal opportunity to develop a competitive proposal(s), agents were required to submit, ranked in order of preference, those insurers they wanted to utilize to structure the County's program. A total of six (6) agents submitted requests for a total of fifteen (15) different insurers. It is believed that the insurers requested represented the majority (if not all) of the insurers with the ability and desire to provided the coverages being sought.

An addendum to the bid specifications were distributed to all interested parties on June 23, 2006 responding to the requests for additional information that were submitted. Proposals that were received were publicly opened on July 26, 2006 by the County's Purchasing Department. Five (5) agents submitted proposals from six (6) different insurers with some of the insurers presenting various options. A detailed analysis of each proposal received is attached and made a part of this report. Following is a narrative discussion of the County's current program and the proposals received by the various agents.

**Current Program**

The County is an authorized self-insurer for Workers' Compensation within the State of Florida. The structure of their current program requires the County to assume the first \$1 million of each claim with Safety National Insurance Company providing protection for any claim that exceeds this amount. Since the benefits injured employees are entitled to receive are specified in the Florida Statutes, the terms and conditions of most Workers' Compensation policies are similar with the only varying factors being the limits, self-insured retentions and the premiums. The County's current program provides coverage for the full statutory benefits as outlined in Florida Statute § 440. The annual premium for the current policy is \$158,376. The policy was placed through Arthur J. Gallagher who has served as the County's Workers' Compensation agent for a number of years.

**Arthur J. Gallagher**

Arthur J. Gallagher submitted renewal proposals from Safety National (the incumbent insurer) and Midwest Employers Insurance Company. Both Safety National and Midwest Employers enjoy a favorable rating from the A.M. Best Company (the leading evaluator of insurance company operations). Both Safety National and Midwest offered several options for self-insured retentions and the overall level of protection that would be provided. Each proposal will be discussed under a separate caption.

### Safety National

The first option Safety National submitted replicates the County's current program. Under this option, the County would have to assume the first \$1 million of each claim with Safety National reimbursing the County for all expenditures in excess of this amount up to statutory limits. The proposed premium for this option was \$170,036.

Safety National also submitted a proposal with a \$750,000 self-insured retention and full statutory benefits. The proposed premium for this option was \$310,945.

Safety National's third option would reduce the self-insured retention for BOCC employees to \$500,000 while retaining the retention for law enforcement officers at \$750,000. The proposed premium for this option was \$431,308.

Their fourth option resembled their first option (self-insured retention of \$1 million) but added Aggregate Excess Insurance that would assume the County's self-insured retention if the total of the claims during the policy year exceeded \$4,903,485. It should be noted that since October 1, 1992, the annual average of the County's claims has amounted to \$1,168,781 with the highest occurrence taking place during the 1998/99 policy year when the claims totaled slightly more than \$2 million. The proposed premium for this option was \$244,977.

Safety National's fifth option used their second option (\$750,000 self-insured retention) as a foundation and included Aggregate Excess Insurance if the total of the claims during the policy year exceeded \$4,903,485. The proposed premium for this option was \$385,886.

The final option proposed by Safety National included a self-insured retention for BOCC employees of \$500,000 and a retention for law enforcement officers of \$750,000. It also included Aggregate Excess Insurance (to attach if claims exceed \$4,903,485). The proposed premium for this option was \$506,249.

Since the County's claim experience would have to increase over 400% above their historical average, it is believed that Safety National's options that included Aggregate Excess Insurance offers little or no added value, it is therefore recommended that these options be eliminated from further consideration. In addition, as will be discussed later in this report, the County has received more favorably priced proposals from other agents and insurance companies that offer the same level of protection. It is therefore recommended that the remainder of Safety National's proposals be eliminated from further consideration.

### Midwest Employers

Like Safety National, Midwest Employers offered several options for the County to consider.

The first option would require the County to assume the first \$1 million of each claim (consistent with the current program). While claim payments under this option would be paid in accordance with Florida Statutes, any claim involving owned aircraft would be limited to \$1 million per life and \$5 million for the entire policy year. The proposed premium for this option was \$165,155.

Midwest's second option would require the County to assume the first \$750,000 of each claim and also limit the claim payments for incidents that involve owned aircraft to \$1 million per life and \$5 million annually. The proposed premium for this option was \$222,463.

Midwest's third option would require the County to assume the first \$1 million of each claim without limiting the amount Midwest would pay for claims involving owned aircraft. The proposed premium for this option was \$190,424.

The fourth option Midwest presented would require the County to assume the first \$750,000 of each claim without any limitation for claims that involve owned aircraft. The proposed premium for this option was \$251,117.

The fifth option presented by Midwest required the County to assume the first \$1 million of each claim, limited the coverage for claims involving owned aircraft to \$1million per life and \$5 million annually and included Aggregate Excess Insurance in the event the County's claims exceeded \$3,485,572. The proposed premium for this option was \$169,006.

The sixth option presented by Midwest required the County to assume the first \$750,000 of each claim, limited the coverage for claims involving owned aircraft to \$1million per life and \$5 million annually and included Aggregate Excess Insurance in the event the County's claims exceeded \$3,485,572. The proposed premium for this option was \$226,213.

The seventh option presented by Midwest required the County to assume the first \$1 million of each claim, provide unlimited coverage for claims involving owned aircraft and included Aggregate Excess Insurance in the event the County's claims exceeded \$3,485,572. The proposed premium for this option was \$194,177.

The final option presented by Midwest required the County to assume the first \$750,000 of each claim, provide unlimited coverage for claims involving owned aircraft and included Aggregate Excess Insurance in the event the County's claims exceeded \$3,485,572. The proposed premium for this option was \$254,980.

Since any of the proposals that were offered by Midwest that included an Aggregate Excess Insurance provision would require the County's claim experience to increase by nearly 300% before any meaningful benefits would be realized, it is being recommended that all of Midwest's proposals that included an Aggregate Excess Insurance provision be eliminated from further consideration.

The proposed premiums for the remainder of Midwest's proposals were higher than other available options (to be discussed later). It is therefore that the remainder of Midwest's proposals also be eliminated from further consideration.

### **Employers Mutual Inc.**

Employers Mutual submitted a proposal from ACE Property and Casualty Insurance Company that would require the County to assume the first \$1 million of each claim while providing statutory coverage for any claim that exceeds this amount. ACE enjoys a favorable rating from the A.M. Best Company. The proposed premium for the program submitted by ACE through Employers Mutual was \$247,273. Since this premium is higher than other available options, it is being recommended that ACE and Employers Mutual be eliminated from further consideration.

### **The Alliance**

The Alliance is a partnership established between the Florida League of Cities (the agent/insurer that provides the County's Liability insurance) and Towers Perrin (an independent insurance agent headquartered in Chicago). The Alliance submitted a proposal from the National Union Fire Insurance Company that enjoys a favorable rating from the A.M. Best Company. The terms of their

proposal were consistent with the County's current program and would require Monroe to absorb the first \$1 million of each claim. Statutory coverage would be available for all claims that exceed \$1 million. The proposed premium for the Alliance program was \$229,863. Since more competitively priced proposals have been received, it is being recommended that the Alliance and National Union be eliminated from further consideration.

### **Marsh USA**

Marsh USA is the largest insurance broker in the world and currently provides the County's Property Insurance. Marsh submitted a proposal from Clarendon National Insurance Company that contained two self insured retention options. Clarendon enjoys a favorable rating from the A.M. Best Company.

The first of Clarendon's options would require the County to assume the first \$1 million of each claim with statutory benefits being provided for all claims that exceed this amount. This option replicates the County's current program. The proposed premium for this option is \$280,850.

The second option submitted by Clarendon would require the County to assume the first \$750,000 of each claim with statutory benefits being provided for all claims that exceed this amount. The proposed premium for this option was \$358,504.

Since the County received more competitively priced proposals that offer the same or higher level of protection, it is being recommended that the Clarendon proposals as submitted by Marsh USA be eliminated from further consideration.

### **Brown and Brown**

Brown and Brown submitted proposals from States National Insurance Company with two self-insured options. States National enjoys a favorable rating from the A.M. Best Company.

Their first option would require the County to assume the first \$1 million of each claim with States National providing statutory benefits for all claims that exceed this amount. This option replicates the County's current program. The proposed premium for this option is \$155,000.

States National's second option would allow the County to reduce its self-insured retention to \$750,000 with statutory protection being provided for all claims that exceed this amount. The premium for this option is \$162,000.

A unique feature of both of States National's proposals is that they will be un-auditable. One of the major components considered in the establishment of the premium of any Workers' Compensation policy is the organization's payroll. Normally the estimated annual payroll is used in establishing the premium and following the expiration of the policy, the actual payrolls are provided to the insurance company and an adjustment to the premium is made. States National has agreed to base their premium on the projected payrolls that were included in the Request for Proposals (RFP) and not adjust the premium at the end of the policy using the actual payrolls. This will allow the County to better budget for their Excess Insurance without the fear that an additional premium would be due following the policy's expiration. This is viewed as a favorable feature.

Since States National has offered comparable coverage (and in some cases improved coverage) over the County's current program and those proposed by the other agents and insurance companies, it is being recommended that Monroe County accepts States National as their insurer for the period October 1, 2006 to September 30, 2007 as presented by Brown and Brown.

In deciding which self-insured option is best, the County's historical losses have been analyzed. Since October 1, 1992, the County has experience 2,395 Workers' Compensation claims (as of June 30, 2006). Only two of these claims have a projected value in excess of \$500,000. One is projected to ultimately cost the County \$670,922 while the other is projected to cost the County \$694,275. Neither of these claims would have exceeded either the \$750,000 or the \$1 million retention. It is therefore believed that retaining a \$1 million retention would be in the best interest of Monroe County.

It is therefore recommended that Monroe County accepts States National option that includes a \$1 million self-insured retention for its Workers' Compensation insurance for the period October 1, 2006 to September 30, 2007 as submitted by Brown and Brown at an annual cost of \$155,000.